

United States Cellular Corporation Ex Parte Presentation

September 8, 2008

Universal Service Reform
WC Docket No. 05-337

U.S. Cellular

- U.S. Cellular provides Personal Communications Service and Cellular Radiotelephone Service in 44 Metropolitan Statistical Areas , 100 Rural Service Areas, one Major Trading Area, and numerous Basic Trading Areas throughout the Nation.
- U.S. Cellular is an eligible telecommunications carrier (“ETC”) in Washington, Iowa, Wisconsin, Kansas, Oregon, Maine, Missouri, Nebraska, Oklahoma, West Virginia, Illinois, New Hampshire, North Carolina, Virginia, Tennessee, and New York.

The Proposal to Cut IAS and ICLS Support Will Significantly Reduce Investment in Rural Areas

- Combined, IAS and ICLS total approximately \$740 million of annual support to CETCs nationally, over half of the total available.
- The FCC's proposal to cut IAS/ICLS support to CETCs will reduce support to individual states by up to 100%.
- CETCs, which are required to invest these funds into their networks, will cut investments in those states by a corresponding amount.
- The cost savings to consumers of these cuts is approximately 17 cents per month, or \$2 a year.

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(cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- California: 100% - \$1.5 M
- Virginia: 98% - \$14 M
- Florida: 97% - \$15 M
- Georgia: 92% - \$7 M
- Pennsylvania: 90% - \$1.2 M
- New Hampshire: 88% - \$1 M
- New York: 87% - \$2.5 M*
- North Carolina: 86% - \$8 M*
- Illinois: 75% - \$23 M
- Tennessee: 73% - 3.3 M
- Nevada: 69% - \$4.7 M
- Washington: 68% - \$31 M
- Texas: 62% - \$22 M
- Indiana: 62% - \$4.7 M
- Oregon: 58% - \$13 M

* Does not include recent ETC designations.

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(cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- Utah: 58% - \$0.6 M
- Wisconsin: 56% - \$33 M
- Alaska: 55% - \$43 M
- South Carolina: 55% - \$3.8 M
- Iowa: 54% - \$34 M
- Minnesota: 48% - \$23 M
- New Mexico: 48% - \$9.1 M
- Oklahoma: 46% - \$14 M
- North Dakota: 45% - \$20 M
- Maine: 44% - \$5 M
- Arizona: 43% - \$6 M
- Kentucky: 43% - \$12 M
- Arkansas: 42% - \$11 M
- Michigan: 41% - \$9 M

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(cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- Alabama: 39% - \$7 M
- Nebraska: 39% - \$22 M
- West Virginia: 38% - \$22 M
- Missouri: 38% - \$13 M
- Colorado: 38% - \$4 M
- South Dakota: 37% - \$13 M
- Hawaii: 35% - \$12 M
- Idaho: 35% - \$3.4 M
- Louisiana: 35% - \$23 M
- Montana: 35% - \$5.8M
- Vermont: 34% - \$2.1 M
- Kansas: 30% - \$25 M
- Wyoming: 29% - \$6.1 M
- Mississippi: 12% - \$20 M

IAS and ICLS Represent Universal Service Support that was Removed from Implicit Carrier Rate Structures.

We agree with the Joint Board that the Commission has the jurisdiction and responsibility to identify support for universal service that is implicit in interstate access charges. Moreover, we agree with the Joint Board that it is part of our statutory mandate that any such support, to the extent possible, be made explicit. In this proceeding and in our pending Access Charge Reform proceeding, we are endeavoring to identify the types of implicit support in interstate access charges and the amount of that support. As we move forward with our efforts to reform interstate access charges, we will develop additional information on the costs of interstate access necessary to evaluate the Joint Board's recommendations in this area and the associated record. The overwhelming majority of commenters addressing the Joint Board's recommendations, however, agree that interstate access rates contain implicit support that should be made explicit.

Federal State Joint Board on Universal Service, Seventh Report & Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45 Fourth Report & Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking, 14 FCC Rcd 8078, 8099 (1999) (emphasis added, footnotes omitted).

IAS and ICLS are high-cost universal service support,
NOT merely “access replacement”.

- The FCC has specifically identified IAS and ICLS as high-cost universal service support.
- Pursuant to Sec. 254(e), the FCC has removed support from implicit carrier rates and placed it in explicit and portable support mechanisms.
- Two purposes: make wireline carriers more competitive because access rates can fall, while also making explicit support available and portable to competitors that invest in high-cost areas.

The FCC has always intended for IAS to be explicit and portable to all competitive carriers:

“By simultaneously removing implicit subsidies from the interstate access charge system and replacing them with a new interstate access universal service support mechanism that supplies portable support to competitors, this Order allows us to provide more equal footing for competitors in both the local and long-distance markets, while still keeping rates in higher cost areas affordable and reasonably comparable with those in lower cost areas [b]y making universal service support explicit and portable, the interstate access universal service support mechanism should also encourage competitive entry into high-cost areas.”

Access Charge Reform, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1 Report and Order in CC Docket No. 99-249 Eleventh Report and Order in CC Docket No. 96-45 15 FCC Rcd 12,962, 12,964, 12,976 (2000).

With respect to ICLS, the Commission has similarly stated:

“Our actions are consistent with prior Commission actions to foster competition and efficient pricing in the market for interstate access service, and to create universal service mechanisms that will be secure in an increasingly competitive environment. ***By simultaneously removing implicit support from the rate structure and replacing it with explicit, portable support, this Order will provide a more equal footing for competitors in the local exchange and long distance markets, while ensuring that consumers in all areas of the country, especially those living in high-cost, rural areas, have access to telecommunications services at affordable and reasonably comparable rates.*** This Order is also tailored to the needs of small and mid-sized local telephone companies serving rural and high-cost areas, and will help provide certainty and stability for rate-of-return carriers , encourage investment in rural America, and provide important consumer benefits.”

Multi-Association Group (MAG) Plan For Regulation Of Interstate Services Of Non-price Cap Incumbent Local Exchange Carriers And Interexchange Carriers, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, 16 FCC Rcd at 19,613, 19,617 (2001) (emphasis added).

The Fifth Circuit has Affirmed the Elimination of Implicit Subsidies

***Second*, the old regime of *implicit* subsidies--that is, "the manipulation of rates for some customers to subsidize more affordable rates for others"--must be phased out and replaced with *explicit* universal service subsidies--government grants that cause no distortion to market prices--because a competitive market can bear only the latter.**

Alenco, et al., v. FCC, 201 FCC 3d 608, 616 at n.4 (2000).

Three Critical Reforms to Control Fund Growth and Make Room for Broadband and Mobility:

- Support Must Be Made “Fully Portable” -- The Carrier That Gets the Customer Gets the Support.
- Support Must be Accurately Targeted to Areas that Are “High-Cost”.
- The “cost-plus” mechanism must be replaced with an efficient mechanism that works in increasingly competitive markets.

Portability:

Support is provided to the carrier that wins the customer and is removed from the carrier that loses the customer

To ensure competitive neutrality, we believe that a competitor that wins a high-cost customer from an incumbent LEC should be entitled to the same amount of support that the incumbent would have received for the line, including any interim hold-harmless amount. While hold-harmless amounts do not necessarily reflect the forward- looking cost of serving customers in a particular area, we believe this concern is outweighed by the competitive harm that could be caused by providing unequal support amounts to incumbents and competitors. **Unequal federal funding could discourage competitive entry in high-cost areas and stifle a competitor's ability to provide service at rates competitive to those of the incumbent.**

Federal-State Joint Board on Universal Service, Ninth Report & Order and Eighteenth Order on Reconsideration, 14 FCC Rcd 20,432, 20,480 (1999).

The FCC Originally Intended for Support to be Fully Portable.

Today, in agreement with the Joint Board, we reaffirm our commitment to the principle that universal service support should be available to all eligible telecommunications carriers on an explicit and portable basis. We also reaffirm that all carriers that provide the supported services, regardless of the technology used, are eligible for designation as an eligible telecommunications carrier. We believe that this transition to forward-looking explicit and portable support represents another critical step towards the development of efficient competition in all areas of the nation. As support becomes explicit and portable, we expect that competitors will find that they are increasingly able to compete for customers outside of the urban and business communities where we have seen more extensive competitive entry to date. **Support will be available to competitors that win higher cost customers from an incumbent carrier. *At the same time, if an incumbent local exchange carrier (LEC) begins to lose customers in high-cost areas, so will it lose the support associated with those customers.***

Federal-State Joint Board on Universal Service, Seventh Report & Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45 Fourth Report & Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking, 14 FCC Rcd. 8078, 8086 (1999) (footnotes omitted, emphasis added).

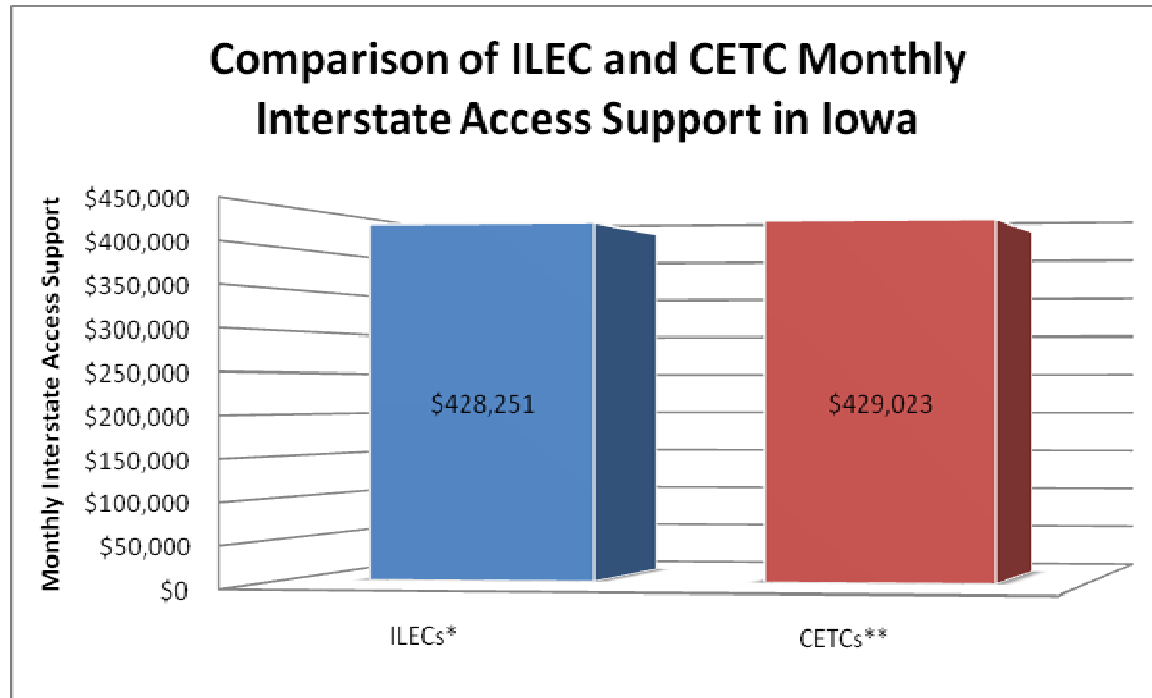
Portability is Competitively Neutral and It Promotes Efficient Investment

We are not persuaded by commenters that assert that providing support to CLECs based on the incumbents' embedded costs gives preferential treatment to competitors and is thus contrary to the Act and the principle of competitive neutrality. While the CLEC may have costs different from the ILEC, the CLEC must also comply with Section 254(e), which provides that "[a] carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." Furthermore, because a competing eligible telecommunications carrier must provide service and advertise its service throughout the entire service area, consistent with section 254(e), the CLEC cannot profit by limiting service to low cost areas. **If the CLEC can serve the customer's line at a much lower cost than the incumbent, this may indicate a less than efficient ILEC. The presence of a more efficient competitor will require that ILEC to increase its efficiency or lose customers.** State members of the Joint Board concur with our determinations regarding the portability of support.

Federal-State Joint Board On Universal Service, Report and Order, 12 FCC Rcd. 8776, 8933 (1997).

How Does Portability Control Fund Growth and Promote Competition?

Comparison of thirty-eight CETCs serving an area served by five ILECs

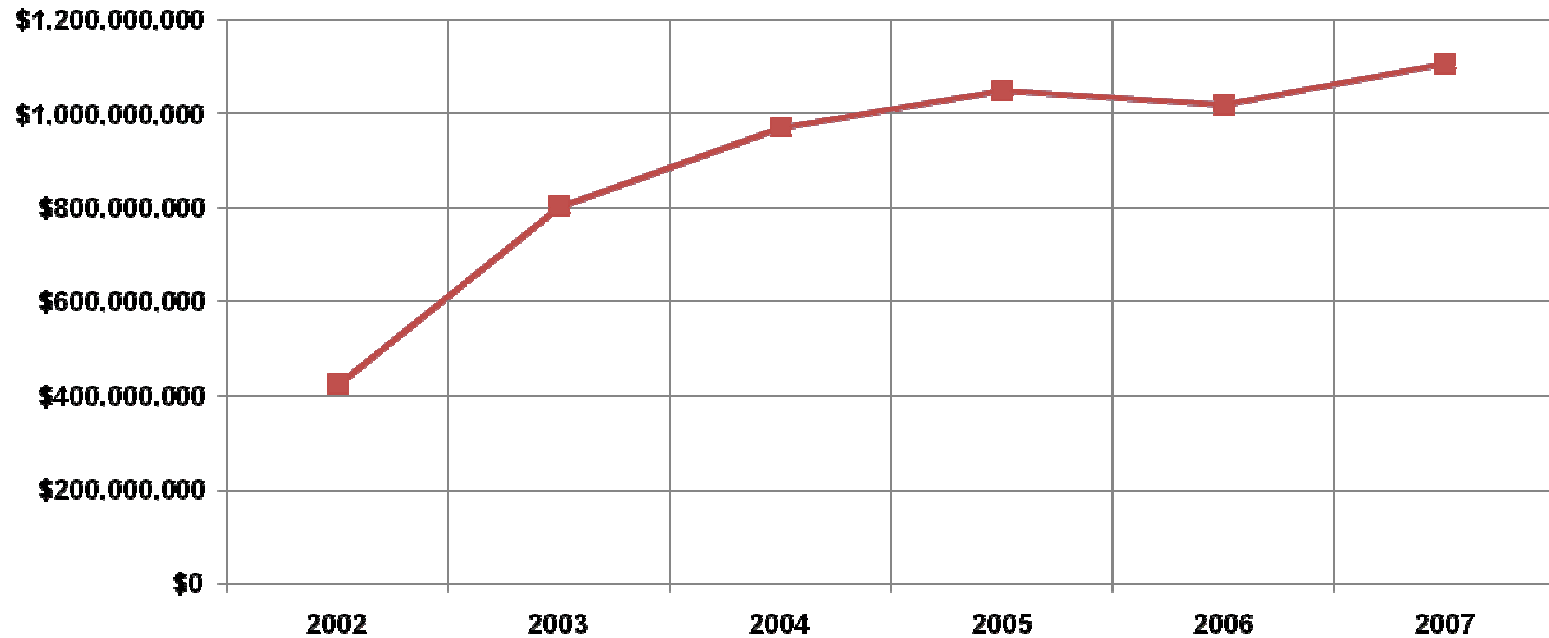


- Five ILECs in Iowa receive Interstate Access Support (IAS). Access support shown includes rural and non-rural ILECs.

** Thirty-eight CETCs in Iowa receive IAS in areas served by the five ILECs.

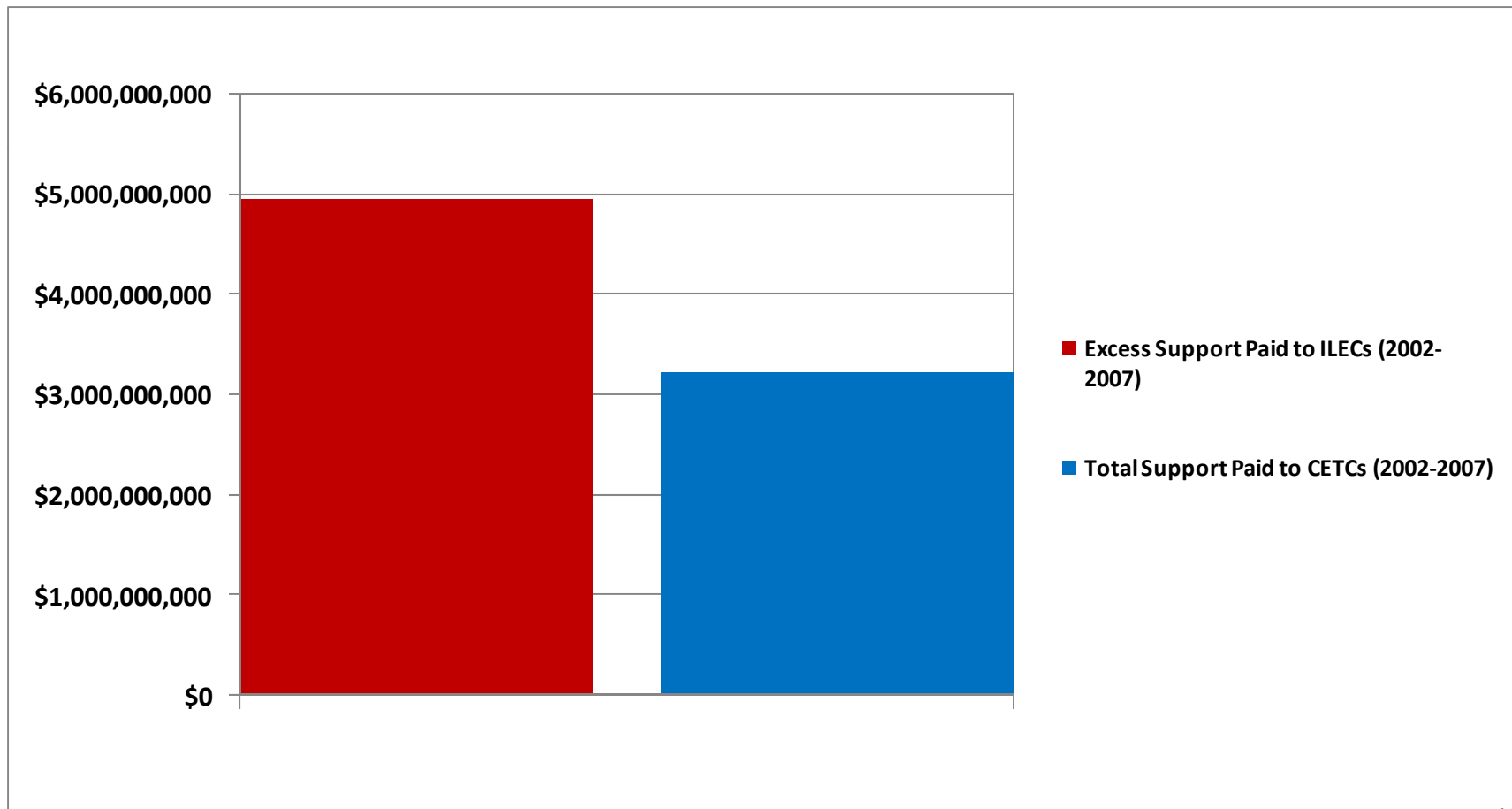
Source: Universal Service Administrative Company, Second Quarter 2008 Projections (Appendix HC12).

Potential Annual Savings if ILEC Support Declined at Same Rate as Loop Counts



NOTE: Loop counts are as of June of each year, except for 2007 (December 2006 figures used)

Savings from Reduction of ILEC Support as Loop Counts Declined Would Have More Than Offset ALL Support to CETCs from 2002 to 2007



Summary of Portability

- Portability is required by law.
- Portability *is* competitively neutral.
- Portable support allows the FCC to control fund growth.
- Portability allows newcomers to enter and compete in rural areas on a level playing field.
- Portability allows **consumers** to choose – not government.

Targeting of Support

- In many areas, support continues to be provided throughout a rural ILEC study area rather than targeted only to the highest-cost areas that need investment the most.
- Failure to target support reduces incentives to build out into rural areas.
- Support must be targeted more accurately.

Targeting of Support

Solution:

Amend 47 C.F.R. Section 315 to require ILECs to disaggregate support at the wire center level.

Looking ahead – Funding Mechanisms For the 21st Century

- Implement full portability and permit funding to be used for broadband investments.
- Shift excess support being spent for ***fixed wireline voice*** toward new technologies. Rural carriers have drawn \$3 billion per year, \$28 billion in the aggregate, at EOY 2008, a significant portion of which supports antiquated technology serving customers that no longer exist.
- FCC has full authority under Sec. 254 to fund broadband and mobility.
- Pending ‘band-aid’ proposals are not comprehensive reform and are not competitively neutral.